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ISSUE PAPER — APC SYSTEM UPDATES

State of Connecticut Hospital Payment Modernization

Lead:	Amy Perry
Contributors:	Janet Flynn, Scott Simerly
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Overview

The proposed State of Connecticut (State) Outpatient Prospective Payment System encompasses various underlying payment methodologies. Some services will be paid based on Medicare's Ambulatory Payment Classification (APC) system while others will be paid based on other Connecticut payment policies. The APC system requires the following items to calculate a payment:

- APC grouper software, including the outpatient code editor (OCE), which assigns the appropriate status indicator and APC.
- APC relative weights.
- A conversion factor.
- Hospital-specific cost to charge ratio (CCR).

Mercer recommends that policies for updating these items be implemented.

Discussion

One of the underlying principles of the proposed Connecticut Medicaid outpatient hospital APC system is to follow Medicare payment policy when reasonable. This includes developing a process for implementing system updates in a timely manner.

APC Grouper Software and Weights

Medicare evaluates and updates the Outpatient Prospective Payment System (OPPS), including the APC payment methodologies and OCE, on an annual basis to reflect the addition of new procedure codes and deletion of outdated codes. In addition, Medicare may also decide to change the coverage of procedure codes within the APC payment methodology. For example, a significant payment policy change implemented by Medicare in 2014 was bundled payments for certain laboratory codes. To support this change, the APC grouper logic (software version) and relative weights must also be updated. The Centers for Medicare & Medicaid Services publishes both a proposed and final OPPS rule in the Federal Register that outlines the Medicare policy changes and APC weight updates.

Major Medicare policy and system changes are effective every January 1. In addition to the annual update, the APC grouper software is updated quarterly for minor changes. The changes are not identified as a new APC grouper version but labeled as V15.1, V15.2, etc.

APC Conversion Factor and Outpatient Fee Schedules

The APC conversion factor is used to convert the APC relative weights to a payment amount and can be compared as the outpatient equivalent of inpatient hospital base rates. While we recognize that program appropriations are currently in a zero growth environment, the State may opt to implement a systematic review policy on the adequacy of reimbursement levels for both the APC conversion factor and outpatient fee schedules for services not reimbursed under the APC methodology.

Cost to Charge Ratio

The final system parameter that needs to be covered by an update policy is the hospital-specific CCR. The APC payment methodology will include a provision for outlier payments for unusually expensive procedures. To determine if an additional outlier payment should be paid, the cost of providing the service must be determined. This cost estimation requires the utilization of a CCR. The cost of the service is calculated as (Covered Charges)*(Hospital CCR). See the "Outpatient Outlier Methodology" issue paper for a more detailed discussion on the outlier methodology.

In order to accurately reflect cost within the methodology, the CCR should be updated on a regular basis to mitigate the effects of higher charge inflation over time — especially since charge inflation has historically exceeded actual cost inflation by a wide margin. Without an annual update to the hospital-specific CCRs, outlier payments would be expected to grow at a rate beyond their increased cost and result in increased program expenditures beyond budget projections.

Conclusion

Mercer recommends that the Connecticut Department of Social Services (DSS) update the APC grouper software and APC relative weights on an annual basis to be effective January 1. The timing of the APC grouper software and APC relative weights is extremely critical to ensure that the system accurately reflects changes in procedure codes and APC assignments. It should be noted that the updated APC grouper software is typically not available until mid to late January. This delay in updating the MMIS will require claims to be reprocessed once the update is installed. In addition to the annual update, minor software updates are released quarterly and should be installed. The quarterly updates can be implemented prospectively and will not require reprocessing of claims.

Mercer also recommends that the State review the proposed and final OPPS rules to determine what impact the changes may have on Connecticut policy since the APC grouper logic is built around Medicare payment policy.

It is anticipated that the statewide conversion factor will be updated based upon legislative appropriations. Mercer recommends that the State, on an annual basis, prepare an analysis to compare outpatient hospital cost to payments to ensure the conversion factor and fee schedule amounts are providing adequate reimbursement to maintain adequate access to care.

Mercer also recommends that the hospital-specific CCRs be updated soon after these figures are available to avoid unanticipated increases in program expenditures. Mercer recommends that

CCRs and non-APC fee schedule amounts be updated each July 1. This also allows the calculations to occur during the same time period as the determination of the inpatient CCRs to facilitate effective use of DSS staff.

Because DSS currently includes the hospital-specific CCRs with the rate letters that are issued each January, a new process will need to be developed to provide the CCRs to hospitals each July. Mercer recommends DSS provide rate update letters to hospitals each July that include the updated hospital-specific CCRs. Additionally, language within the January rate letters should be revised to provide notification that rate update letters will be provided in July for this purpose.